

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

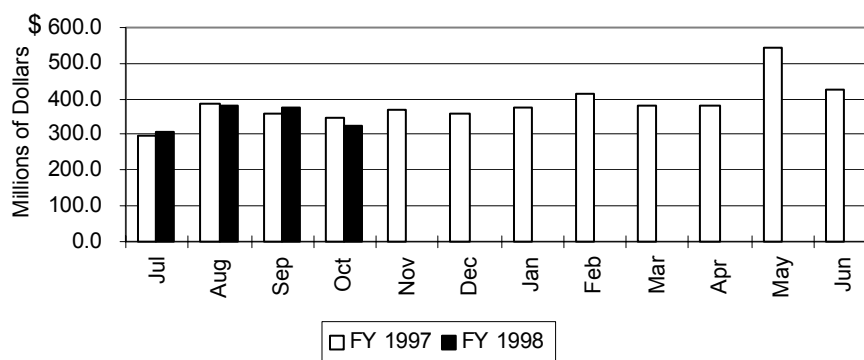
FROM: Dennis C. Prouty

DATE: November 3, 1997

General Fund Receipts Through October 31, 1997

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.769 billion) set by the Revenue Estimating Conference (REC) on September 19, 1997. The estimate represents an increase of \$121.1 million (2.6%) compared to FY 1997. The current FY 1998 REC estimate includes the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35) as well as all bills passed during the 1997 Legislative Session. The next meeting of the REC is set for November 20, 1997, and will set the revenue estimate for the preparation of the Governor's FY 1998 budget as well as the upcoming Legislative Session.

Monthly General Fund Receipts - FY 1997 v. FY 1998

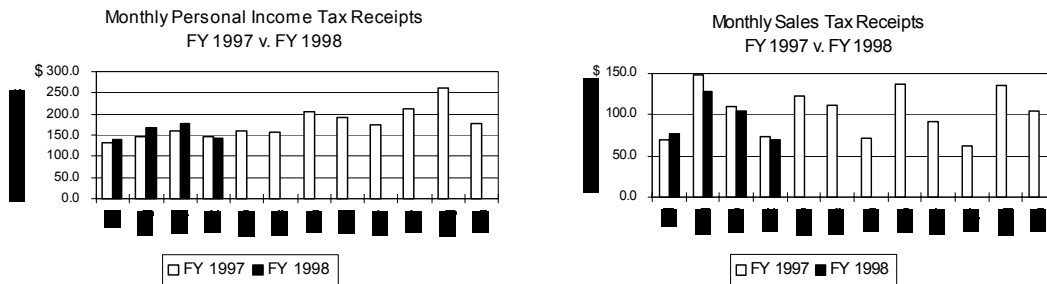


October 1997 Compared to October 1996

Total General Fund receipts collected in October were 6.0% lower compared to October 1996. Special tax receipts showed a decrease of 5.5%. Personal income tax receipts decreased 3.0%. Sales tax receipts were 5.6% lower than October 1996. Use tax receipts increased 6.0%, and corporate income tax receipts were 21.3% lower than October 1996.

FY 1998 Compared to FY 1997

Year-to-date revenue growth decreased by \$0.3 million (0.0%) compared to FY 1997. This is below the current REC estimate of 2.6% for FY 1998. Overall, sales tax receipts continue to be the primary factor in the lower than expected revenue growth. Strong year-to-date growth in personal income tax and use tax have helped to somewhat offset the lower than anticipated growth in sales tax receipts.



Gross personal income tax revenues received in October were \$4.4 million (3.0%) lower than October 1996. However, year-to-date receipts continue to be strong, with an increase of 6.8% compared to the FY 1997 amount. The primary cause of growth in personal income tax receipts is withholding payments, which are \$40.5 million (8.3%) greater than FY 1997.

The REC FY 1998 income tax estimate of \$2.205 billion represents a projected increase of 3.9% compared to FY 1997. As stated earlier, this reflects the 10.0% income tax reduction. The effects of the law change will not be evident until the second half of the fiscal year when the withholding tables are updated to reflect the 10.0% tax reduction.

Sales tax receipts in October fell below last year's level by \$4.1 million (5.6%). The local-option sales tax payment to local governments is at least partially responsible for the lagging year-to-date growth. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. This accounts for approximately \$14.0 million of the decline in the year-to-date receipts. Total year-to-date receipts are \$23.4 million (5.6%) below last year's level. The current REC estimate for FY 1998 sales tax receipts is \$1.300 billion, which represents an increase of 5.1% compared to FY 1997.

Corporate income tax receipts in October were \$7.7 million (21.3%) lower than October 1996. After two months of relatively strong growth, October corporate income tax receipts fell behind last year's level by a significant amount. The primary factor is reduced estimate payments, which are \$11.7 million (13.9%) below last year's year-to-date amount.

The September REC projected FY 1998 corporate income tax receipts would total \$305.0 million, a decrease of \$13.8 million (4.3%) compared to FY 1997.

Racing and gaming receipts in October were \$4.0 million (34.8%) higher than October 1996. The September and October growth has resulted in a year-to-date increase of \$3.7 million (10.1%) compared to FY 1997. The gain for October is equally attributable to receipts generated by riverboats and slot machines.

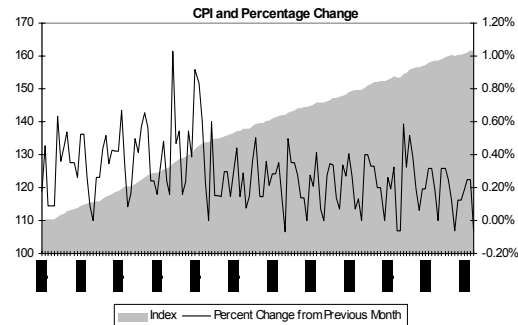
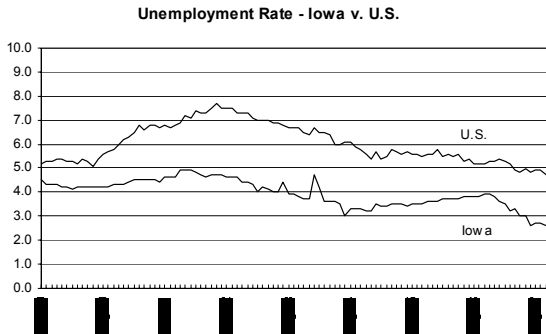
All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Account. As a result, activity in these accounts has little direct impact on the General Fund because there is virtually no doubt that receipts will exceed the \$60.0 million threshold. The September REC estimated that \$72.6 million from this source would be deposited to the Infrastructure Account in FY 1998.

Institutional payments in October were \$3.5 million (51.5%) lower than October 1996. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

Status of the Economy

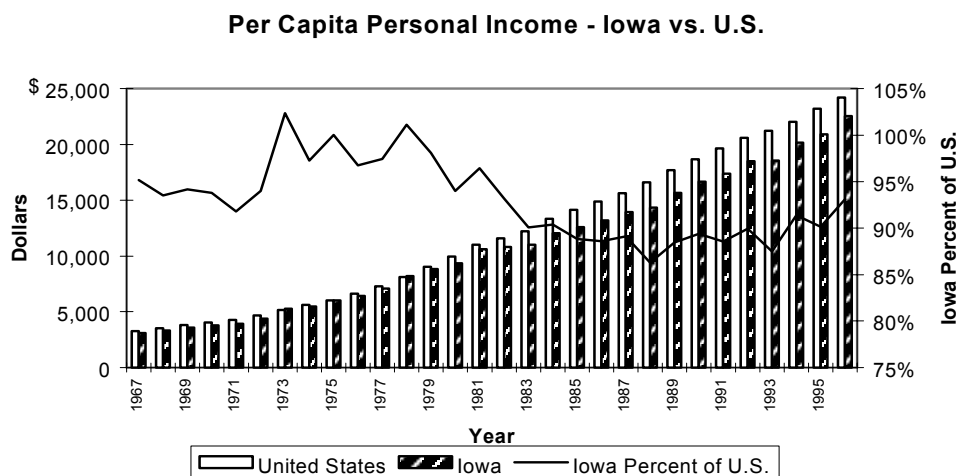
The seasonally adjusted percent unemployed for the State remained unchanged from the 2.7% rate in August. The unemployment rate a year ago was 3.8%. Iowa's total employment registered 1,549,300 up from August's level of 1,539,600, but lower than the March 1997 record high of 1,574,200. The U.S. unemployment rate in September also remained unchanged from August's level of 4.9%.

Consumer prices in September increased 0.3%. The Consumer Price Index (CPI-U) through September 1997 was 161.2 (1983=100), which is 2.2% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through September 1997.



The Bureau of Economic Analysis has released a cross-state comparison of 1996 per capita personal income. Per capita income in Iowa in 1996 grew nearly 7.9%, which surpassed national per capita income growth of 4.5%. The growth in Iowa narrowed the gap between income levels in Iowa versus the nation. In 1996, Iowa per capita income was \$22,560, which was 93.1% of the national level of \$24,231. In percentage terms, the gap is the smallest since 1982.

The following chart compares Iowa and national per capita income. The bars show income levels, using the left axis. The line shows Iowa's per capita personal income expressed as a percent of national per capita income, and uses the axis on the right side of the chart.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1997, through October 31, 1997, in millions of dollars					FY 97 Actual Compared to FY 98 REC Estimate		
	FY 1997	FY 1998	Year to Date % CHANGE	October % CHANGE	Actual FY 1997	Estimate FY 1998	% CHANGE
Personal Income Tax	\$ 586.4	\$ 626.1	6.8%	-3.0%	\$ 2,123.1	\$ 2,205.0	3.9%
Sales Tax	399.5	376.1	-5.9%	-5.6%	1,237.4	1,300.0	5.1%
Use Tax	76.0	82.8	8.9%	6.0%	223.1	245.0	9.8%
Corporate Income Tax	99.9	85.6	-14.3%	-21.3%	318.8	305.0	-4.3%
Inheritance Tax	41.1	40.4	-1.7%	4.7%	109.3	97.2	-11.1%
Insurance Premium Tax	0.1	0.0	n/m	n/m	106.0	110.0	3.8%
Cigarette Tax	33.2	32.8	-1.2%	-9.9%	94.6	97.0	2.6%
Tobacco Tax	2.0	2.2	10.0%	20.0%	5.7	5.7	-0.2%
Beer Tax	4.6	4.6	0.0%	0.0%	12.5	12.5	0.2%
Franchise Tax	11.0	11.2	1.8%	0.0%	35.6	35.6	-0.1%
Miscellaneous Tax	1.5	1.9	26.7%	-750.0%	1.2	1.0	-16.0%
Total Special Taxes	\$ 1,255.3	\$ 1,263.7	0.7%	-5.5%	\$ 4,267.3	\$ 4,414.0	3.4%
Institutional Payments	33.2	17.2	-48.2%	-51.5%	104.3	72.5	-30.5%
Liquor Transfers:							
Profits	8.0	8.0	0.0%	0.0%	28.8	30.0	4.2%
7% Gross Revenue	3.0	3.0	0.0%	214.3%	9.0	9.0	0.0%
Interest	3.1	6.3	103.2%	100.0%	18.0	25.0	39.2%
Fees	20.7	22.3	7.7%	-13.0%	63.6	63.6	0.0%
Judicial Revenue	10.4	10.6	1.9%	-9.8%	42.9	40.9	-4.8%
Miscellaneous Receipts	22.5	21.1	-6.2%	-50.7%	54.0	54.0	0.1%
Racing and Gaming Receipt	36.7	40.4	10.1%	34.8%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 1,392.9	\$ 1,392.6	0.0%	-6.0%	\$ 4,647.8	\$ 4,769.0	2.6%